

Message Text

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13

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03

NSC-10 PA-04 PRS-01 SS-20 USIA-15 SAM-01 FAA-00 CAB-09

DRC-01 /176 W

----- 051189

R 261800Z FEB 74

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 4376

INFO COMICEDEFOR

CINCLANT

UNCLAS REYKJAVIK 0349

E.O. 11652: N/A

TAGS: ELAB ECON IC

SUBJECT: STRIKE ENDED; INFLATION FORECAST

REF: REYKJAVIK 0303 AND 0222

1. THREE DAY GENERAL STRIKE STTTLED EVENING OF FEBRUARY 25 WITH GRANTING OF LARGE WAGE INCREASES, AND MOST EMPLOYEES, WITH EXCEPTION OF METAL WORKERS AND CARPENTERS, RETURNED TO WORK BY NOON FEBRUARY 26. SCHEDULED AIRLINES HAVE RECOMMENCED OPERATIONS AND COUNTRY RETURNING TO NORMAL AFTER BRIEF, MINOR DISRUPTIONS.

2. AGREEMENT IS FOR TWO YEARS. EXACT WAGE INCREASES WILL VARY SOME FROM UNION TO UNION AND WITHIN GIVEN TRADE DEPENDING ON EMPLOYEE'S GRADE, BUT FOR MOST THE INCREASE IS ESTIMATED TO BE AT LEAST 18PERCENT INCREASE EFFECTIVE IMMEDIATELY WITH ADDITIONAL 3 PERCENT ON NOVEMBER 1, 1974 AND AGAIN ON JULY 1, 1975. COUPLED WITH JUMP IN GRADE FOR LARGE NUMBER (ESTIMATED AT LEAST 70 PERCENT IN LARGEST UNION) ACTUAL INCREASE OVER TWO YEAR PERIOD COULD RUN OVER 30 PERCENT.

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3. AGREEMENT PROVIDES FOR NO CHANGE IN SYSTEM OF LINKING WAGES TO COST OF LIVING INDEX. AS A RESULT, IT IS EXPECTED THAT ON AVERAGE WAGES WILL INCREASE DURING 1974 ANYWHERE FROM 35 TO 45 PERCENT. MAJOR PRICE INCREASES CAN BE EXPECTED WITHIN A MATTER OF WEEKS. A VARIETY OF PEOPLE INVOLVED IN NEGOTIATIONS AND IN GOI ECONOMIC AFFAIRS ARE PRIVATELY FORECASTING SUBSTANTIALLY GREATER INFLATION THAN IN 1973 (WHEN FIGURE REACHED 28 PERCENT) AND A GENERAL PERIOD OF ECONOMIC DISLOCATION. IN THE PAST, SIMILAR CIRCUMSTANCES HAVE LEAD, AMONG OTHER THINGS, TO CURRENCY DEVALUATION. UNDER PRESENT POLICY OF PARTIALLY FLOATING THE KRONA, ANY DECISION TO DEVALUE MIGHT BE CARRIED OUT THROUGH GRADUAL CURRENCY CHANGE.
MARTIN

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